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SUBJECT: SCENESETTER FOR THE SEPT. 2-3 VISIT OF SENATOR TED STEVENS TO TURKEY

REF: STATE

SENSITIVE BUT UNCLASSIFIED

1. (SBU) SUMMARY: Your visit comes at a time when our bilateral relations are on the mend from a difficult period when events in Iraq and Turkey's focus on getting a date from the EU to start accession negotiations overshadowed our traditionally close cooperation. With a growing economy, a scheduled Oct. 3 date to start EU negotiations, and following a series of high-level government exchanges culminating with the early June visits of PM Erdogan, FM Gul and DCHOD Basbug to Washington, Turkey has expressed its commitment to strengthen our partnership in areas where our interests converge, particularly in the Global War on Terrorism. However, the lack of coalition effort against the PKK (Kurdistan Workers' Party) in Iraq remains a sore point. A recent upswing in terrorist attacks in Turkey attributed to the PKK and lack of momentum on Turkey's EU agenda have revealed divisions between the ruling, Islam-oriented AKP government and secular state institutions, and indecision that suggest a policy inertia which could impede the government's ability to move forward to further Turkey's EU bid and its broader policy programs. END SUMMARY.

Political Divisions

2. (SBU) By the numbers Turkey should be facing smooth sailing politically. Ruling Islam-oriented AK Party (AKP) has an almost two-thirds majority in parliament and controls almost all major and second-tier Turkish cities. There is no viable political alternative at the moment or in the foreseeable future. The AKP government has passed long overdue political and human rights reforms -- at least on paper -- and has led Turkey close to an Oct. 3 start date for EU accession negotiations. Sharply lower inflation and high economic growth have allowed the government to argue for continued patience on the economic front.

3. (SBU) However, a broad cross-section of Turks is worried that Turkey is headed for a significant political day of reckoning, even a constitutional crisis, between the core institutions of the state, which have a secular vision of Turkey, and AKP, which step by step is putting into effect policies reflecting an Islamist-oriented concept of Turkey and its foreign policy. Core state institutions (Presidency, high judiciary, armed forces, and bureaucracy) are deeply concerned by what they see as AKP's failure to put into effect comprehensive and workable policies to combat both PKK and Islamist terrorism. They are equally concerned by what they see as AKP's broad attempts to subvert the secular nature of public institutions by trying to pack the Constitutional Court and other high courts, by preparing to pass constitutional amendments which would sharply cut back secular controls, by cutting off opposition parties' right of debate (akin to the filibuster) to ram controversial legislation through parliament, by appointing Islamists to key bureaucratic posts, and by cutting off effective bureaucratic control of Koran courses (thus leaving Turkey vulnerable to medrese-type courses run by fanatics).

4. (SBU) In addition, both the U.S. and EU are concerned by an anti-missionary, anti-Christian, anti-Jewish atmosphere fostered by AKP and its policies regarding minority religions in Turkey and by AKP's weak stance toward al Qaida, Zarkawi, and other Islamist terrorists.

Security Relations on the Upswing

5. (SBU) Defense relations have traditionally been the strongest aspect of our bilateral relationship, although they have always had their ups and downs. One of the troughs was in March 2003 when the Turkish Parliament voted against allowing U.S. troops to enter northern Iraq from Turkey and the following July when US forces arrested Turkish soldiers in northern Iraq for plotting against a local mayor. The successful June 2004 NATO Summit in Istanbul and President Bush's visit to Ankara put the relationship back on a more positive footing. However, the relationship suffered again in late 2004 and early 2005 due to the continued unpopularity of the coalition effort in Iraq (over 95% of the population

opposed the war) and lack of Turkish leadership in defending our relationship. Military-to-military relations are on the mend despite the Turkish military's continued frustration at our lack of kinetic action against the PKK terrorist organization's camps and leaders in northern Iraq. It was the Deputy Chief of the General Staff (DCHOD), General Ilker Basbug, who turned this situation around by expounding on the importance of Turkey's relations with the U.S. despite some problems, at a nationally-televised press conference on January 26. The Chief of the General Staff (CHOD) followed suit in April at a speech to the Turkish War Academy, in which he reaffirmed that the Turkish-American relationship was mutually beneficial and too broad in scope and too strong to be weakened by any short-term event.

Partner in GWOT

16. (U) Turkey has provided valuable assistance and cooperation to the global war on terrorism (GWOT). Ankara offered to send peacekeeping troops to Iraq in October 2003 (an offer Iraq declined), approved the use of Incirlik Air Base for tankers to refuel aircraft on support missions for both OEF and OIF, authorized the transit of US troops on rotation from Iraq, and permits the transit of fuel, coalition supplies and humanitarian goods (from OIF's inception until the end of CY04, over USD 2.5 billion in coalition sustainment and humanitarian assistance, or about 25% of all sustainment and 66% of humanitarian fuel shipments to Iraq.) In April 2005, the GOT granted the US permission to establish a cargo hub at Incirlik. Operations began in June which have significantly increased the efficiency of the delivery of supplies to Iraq. By moving cargo operations closer to Afghanistan and Iraq, 6 US military C-17 aircraft are able to move the amount of cargo it would take 9-10 military aircraft to move from Germany. Turkey has also permitted the basing of a US FAA plane at Incirlik to conduct navigational aid checks at all Iraq air fields. Turkey fully and publicly supported the participation of all Iraqis in the Jan. 30 elections and remains active in reconstruction efforts, including providing fuel and electricity for Iraq, and training in Turkey for Iraqi diplomats and politicians, and (through the NATO training mission) Iraqi Security Forces.

17. (U) On Aug. 8, Turkey completed its second International Security Assistance Force (ISAF) Command (II and VII) in Afghanistan, which it held for six months and during which time it contributed over 1,600 troops. Turkey is currently looking at options to further contribute to ISAF. Turkey also contributes to reconstruction and training efforts in Afghanistan. It is involved in the reconstruction of schools and is exploring possible counter-narcotics training programs for Afghan police both in Turkey and Afghanistan, as well as alternative livelihood options for poppy farmers. Following PM Erdogan's May visit to Afghanistan, he pledged an additional \$100M in assistance to the country.

18. (U) Beyond Afghanistan and Iraq, the US and Turkey coordinate military assistance to Georgia and Azerbaijan, improving their abilities to protect important energy transport routes. Turkey subscribes to every arms control arrangement it is eligible to join, including the Proliferation Security Initiative (PSI). It will host the first PSI combined air, land, and sea exercise in May 2006. Ankara has also been supportive of international efforts to press Iran to meet its commitments to the IAEA, fully backing the EU-3 dialogue. The one issue on which we disagree is Syria, where Turkey believes engagement will be more effective than isolation to halt Syria's support of terrorism.

19. (U) The Turkish military's Partnership for Peace Training (PFP) Center provides counter-terrorism and other training to personnel from PFP partner countries. In June, TGS inaugurated a NATO Center of Excellence for the Defense Against Terrorism that will provide more specialized training opportunities for both NATO partner nations, Allies and, under NATO's Iraq training mission, Iraqis as well. The US is supporting this center through the provision of rotational trainers and via George C. Marshall European Center for Security Studies trainer-training programs.

Defense Industry Cooperation Weak

10. (SBU) While overall mil-mil relations are improving, our defense industry relationship is declining. Turkey has historically preferred US military equipment for NATO and US inter-operability reasons and in April 2005 signed a \$1 billion Foreign Military Sale agreement to upgrade Turkey's F-16 fleet; Lockheed Martin will perform the work on behalf of the USG. However, no US firm has won a significant commercially competed defense contract since Boeing was awarded a contract in 2002 for Air Early Warning and Control (AEW&C) aircraft. In 2004, three tenders (UAVs, Main Battle Tanks, ATAK -- attack helicopter) were canceled. Bell

Helicopter, which had won the original ATAK tender in 1997, lost it when the Turkey canceled the tender due to Bell's inability to commit to significant technology transfer. The tender was reissued in Feb. 2005 under onerous Terms and Conditions requiring significant technology transfer and heavy liability clauses. Bell Helicopter withdrew from competition and Boeing threatened the same. In an attempt to ensure US participation, Turkey revised the tender to reduce some liability requirements and reissued it on May 18. Boeing is evaluating the changes but remains unconvinced that the terms have been revised enough to allow its participation. We understand that the tender is being revised yet again to address some specification issued raised by non-US contenders in hopes of keeping them in the competition. Bids are due Sept. 13.

11. (SBU) One bright spot is the June 26 agreement -- after three years of negotiation -- between Turkey and Sikorsky Helicopter for a \$390M sale of 12 Seahawk helicopters, with an option to buy 5 more. However, the sale is contingent on the extension of an existing EXIM facility that had been extended previously and will run out in 2011. Sikorsky has told us it is considering bidding on a tender recently issued for 52 helicopters for the Turkish Forestry Service and Turkish Armed Forces. If EXIM is unable to extend its facility for the Seahawk deal, Sikorsky's broader business interests could be negatively impacted.

12. (U) Turkey is a Level III participant in the Joint Strike Fighter (F-35) program and has pledged to buy around 100 planes, potentially making it the second or third largest purchaser after the US military. However, it has requested significant (\$6B) local procurement which will be difficult to meet.

Stagnation on Cyprus

13. (SBU) Overall settlement efforts are at a standstill following the 2004 referendum in which Greek Cypriots rejected the Annan Plan (Turkish Cypriots approved it). Cypriot President Papadapoulos has refused SYG Annan's request that the Greek Cypriots side state its objections to the Plan with "clarity and finality" as a first step in further settlement efforts. Papadopolous feels no pressure to show flexibility given that the Republic of Cyprus was taken into the EU in May 2004.

14. (SBU) Papadopoulos has also stymied EU attempts to ease Turkish Cypriot isolation through aid and direct trade. The U.S. has done more than any other country to ease Turkish Cypriot isolation, including establishing a \$30.5 million "Cyprus Partnership for Economic Growth" (CyPEG) designed to help develop Turkish Cypriots businesses; several delegations of Congressmen and staffers have also visited northern Cyprus directly rather than traveling through the south. Turks appreciate these efforts.

Bumpy Road to the EU

15. (U) Turkey and the EU are set to open accession negotiations October 3. Turkey's July extension of its EU Customs Union to the ten new EU members, including Cyprus, was marred in the view of some EU member states by Turkey's declaration that it will not recognize the Republic of Cyprus absent a comprehensive settlement. French PM de Villepin's and President Chirac's subsequent statements that Turkey should also formally recognize Cyprus added an element of doubt. The EU will take this up this matter just before your visit, at a September 1-2 foreign ministers, meeting.

16. (SBU) EU members are working to agree on a negotiating framework for Turkey prior to October 3. The UK, as EU Term President, is working behind the scenes to prevent members from inserting language that could cause the Turks to balk at opening talks including, for example, suggestions that Turkey will have to settle for less than full membership, i.e., a privileged partnership.

Economy on the Rise

17. The Turkish economy is recovering from the sharp financial crisis of 2001 thanks to the implementation of some structural reforms -- such as the creation of an independent central bank, cutbacks in government spending, and bank regulatory reform -- as well as strong inflows of emerging market portfolio investment. GDP grew 8.9% in 2004 and is expected to grow at about 5% this year, while inflation is currently below 10% and declining. The depth of Turkey's financial problems and the partial implementation of reforms leave the country vulnerable to a change in global market sentiment that could be triggered either by domestic developments or a rise in U.S. and global interest rates. A large current account deficit (over %5 of GDP) is financed

largely by short-term inflows. Foreign direct investment has not materialized as a stable source of financing or growth, primarily due to the generally opaque legal and regulatory environment.

18. The benefits of growth are not being felt by average Turks. Annual per capita income is currently about \$4000. The current official rate of unemployment is approximately 10% (there is widespread underemployment) and deep poverty is widespread, particularly in urban sprawl and rural areas. Given the young population (30% is below the age of 15), generating sustained growth is critical for Turkey to raise incomes and maintain political and economic stability. Unfortunately, the structural reforms necessary to sustain such rates of growth have been slow in coming. The privatization program has been disappointing, and the share of unregistered (and untaxed) activity in total GDP is estimated at 40-60%. Some of these issues are being addressed through active IMF and World Bank programs. The IMF recently approved a new three-year, \$10 billion program after prolonged government foot-dragging and the World Bank's loan portfolio totals \$4.3 billion. The EU accession process will also entail reforms, but the most difficult ones will be back-loaded and will entail large costs, such as for upgrades needed to meet EU environmental standards.

19. In large part because of the slowness of reforms and liberalization and the unwelcoming legal environment, economic relations with the United States are not commensurate with Turkey's economic size or potential. Understandably, Turkey has given a priority to developing economic relations with EU countries. However, the U.S. share of Turkey's imports declined from 7.6% in 1999 to 3.5% (\$3.4 billion) in 2004. The largest U.S. export category is \$500 million in raw cotton that is transformed into textiles for export to Europe and the U.S. Other leading U.S. exports are machinery, chemicals, and scrap metals. Total U.S. investment is paltry: approximately \$2 billion, concentrated in the food products, banking and automotive sectors. The highest profile U.S. companies are Coca Cola, Citibank, Pepsi, Cargill and Ford; the latter has a successful joint venture with a leading Turkish firm producing light trucks for domestic use and export to Europe. A track record of high-profile disputes involving arbitrary Turkish court rulings and Turkish defaults on contracts has deterred greater investment. Approximately \$1 billion in Turkish imports entered the United States under the Generalized System of Preferences (GSP) program in 2004.

20. We also have serious issues over market access for U.S. agricultural products, including rice and breeding cattle, as well as a potentially restrictive biotechnology law being considered by the Turkish parliament. Turkey plays a key role in ensuring global energy security. The 1.0 million-barrels-per-day Baku-Tblisi-Ceyhan pipeline should be completed later this year, and approximately 3 million barrels flow through the congested and environmentally sensitive Turkish Straits every day. Turkey imports nearly all of its domestic energy supplies, including large quantities of natural gas from Russia and Iran. It recently announced plans to develop nuclear generating capacity, but it is not clear how this would be financed.

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